

Canadian Centre
for Foreign Policy
Development



Centre canadien
pour le développement
de la politique étrangère

125 Sussex Dr. Ottawa, Ontario K1A 0G2

**THE SECURITY IMPLICATIONS OF THE
FINANCIAL CRISIS:
A ROLE FOR CANADA**

Xavier Furtado

May 1999

5006.4E

ISBN: E2-402/2000E-IN
0-662-30850-6

Human Security and Asia's Financial Crisis: A Critique of Canadian Policy

Xavier Furtado¹

Introduction

More than three years after the onset of Asia's financial crisis, several of the region's economies have been showing signs of recovery. As interest rates continue to decline and exchange rates in the region show signs of strength, many analysts argue that the region is poised to resume its journey towards economic growth and development. Because of improvements in the regional economy, some believe that the worst is over and that standards of living and social conditions in Asia will continue their long march upward.

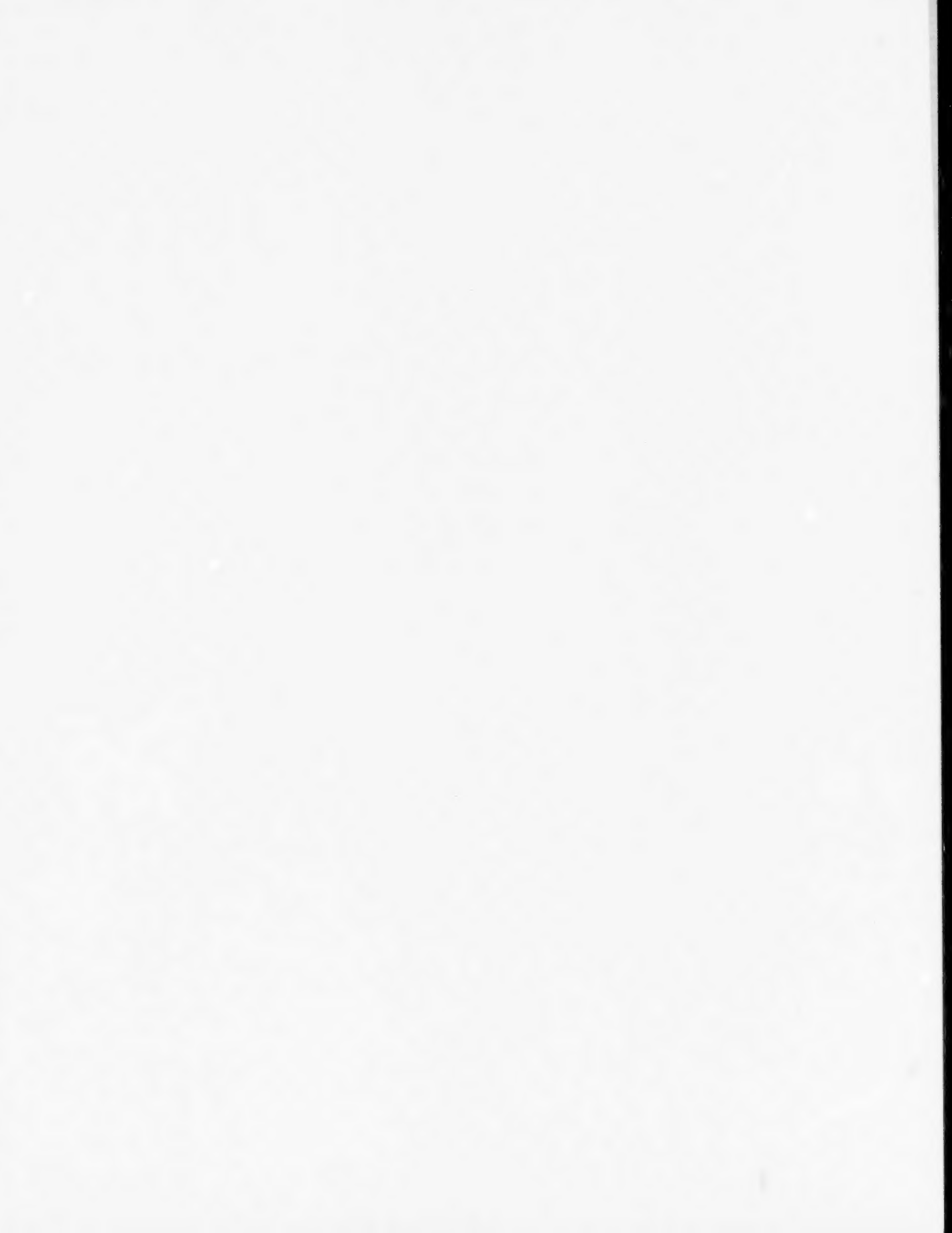
The complete story, however, is less sanguine. In some countries, industrial capacity continues to decline and private investment is far from pre-crisis levels. These persistent challenges promise even more unemployment and continued social difficulties. When coupled with the likelihood of continued economic hardship in some economies through 2000 and 2001, the popular argument that Asia's economic and political troubles are over seems less convincing as the declining social security/welfare situation is not likely to see consistent improvement.² Even if the least afflicted economies manage to post strong growth through the remainder of 2000, their situation will remain precarious, and economic stability will not be assured. Consequently, they will be less able to provide their citizens with the sorts of opportunities for economic advancement that were available prior to the crisis.³ The absolute number of people living either on or below the poverty line will remain large, and the human welfare challenges posed by the crisis will persist. As a result, Canadian policy-makers will have to remain vigilant and continue to monitor the situation in Asia closely.

The purpose of this article, however, is to go beyond the income-related effects of the crisis and draw attention to some of its more specific implications on human security concerns in three Southeast Asian countries - Malaysia, the Philippines, and Vietnam. Using data uncovered during fieldwork - comprising of interviews/consultations with personnel from government, academe, and non-governmental/activist groups, as well as a review of primary and secondary data most readily available in these countries - the article provides a critique of how the Canadian policy establishment conceptualizes and articulates human security in the 1995 foreign policy statement, *Canada in the World*.

¹ Development Officer, International Financial Institutions Division, Canadian International Development Agency (CIDA). This article was researched and written while the author was an assistant professor of international relations at De La Salle University, Manila, and research consultant to the Asian Institute of Management. Research funding was provided by the Canadian Centre for Foreign Policy Development and a Canadian Consortium on Asia Pacific Security (CANCAPS) Young Scholar Travel Award. Thanks are due to Allen Chong and Marc Lanteigne for comments on earlier drafts and to Mohan Ambikaipaker for his insights. The views expressed are the author's alone.

² See, for example, Lisa Cameron, 'Indonesia's social crisis,' *Far Eastern Economic Review*, 8 July 1999, 24.

³ 'Attracting attention: the perception of Malaysia,' *ibid*, 82.



The decision to focus on Malaysia, the Philippines, and Vietnam was driven by two key considerations. First, the violence and remarkable political transformations that took place in Indonesia and, to a lesser degree, in Thailand and South Korea has meant that other countries affected by the crisis have received relatively less attention and analysis from either academe or from the international media. Second, each of these countries is experiencing social, economic, and political transformations that began before the onset of the crisis. By focusing on these three countries, it is possible to examine how an exogenous/systemic shock (the crisis) affected existing domestic/endogenous processes of social and governmental change and the implications of this interaction on human security concerns.

The article makes two arguments. First, Asia's financial crisis had a considerable impact in countries already undergoing transitional processes. On their own, these internal transformations posed serious human security challenges to citizens in each country, and the onset of the crisis exacerbated their effects. In some cases, key institutions faltered and human security was compromised in ways that go beyond the income-related effects of the crisis. Second, the observations and conclusions drawn from the fieldwork, in most cases, present a direct challenge to how Canadian policy-makers conceptualize human security. Based on the data uncovered during the course of research, the argument is that Canada should rethink its understanding of human security if its efforts are to be effective over the longer term.

Because a clear and widely agreed definition of human security continues to elude analysts and policy-makers alike, the definition implied in *Canada in the World*⁴ --- which suggests that human security is a cross-cutting theme that includes concerns over economic scarcity, environmental degradation, human rights abuses, demographic changes and threats to health standards --- is employed. Human security in the government statement seems to centre on the economic, social, and governance-related challenges of underdevelopment. Based on this definition, the financial crisis is used as a prism through which to assess the Canadian government's understanding/conceptualization of human security.

This article goes beyond the income-related effects of the crisis to explore some issues that are rarely discussed in the literature on Asia's financial turmoil. Moreover, by examining the effects of an exogenous shock on endogenous processes of change, a unique set of observations and conclusions about the effects of the crisis is revealed. Little attention has been paid to how

⁴ The definition draws heavily on Department of Foreign Affairs and International Trade, *Canada and the World: Government Statement* (Ottawa: Government of Canada 1995), 25 and 40-2. While some may argue with my decision to use the definition provided in *Canada in the World*, pointing to the fact that the foreign minister, Lloyd Axworthy, and his department have re-define human security in several policy documents and/or public statements since the 1995 foreign policy statement (see, for example, Lloyd Axworthy, *Human Security: Safety for People in a Changing World* (Ottawa: Department of Foreign Affairs and International Trade, April 1999); 'Notes for an address by the Honourable Lloyd Axworthy, Minister of Foreign Affairs, to the Paasikivi Society,' 99/47, Helsinki, Finland, 1 September 1999, e-mail from bulletins@dfait-maeci.gc.ca [2 September 1999]), *Canada in the World* is the government's most recent official policy statement and, ostensibly, reflects positions that were agreed upon by all of the relevant government agencies.

the changes wrought by the financial crisis affect Canada's foreign policy. Thus, the article also addresses the question of how human security concerns are operationalized within Canadian foreign policy.

Malaysia

Macroeconomic Decline

Malaysia has managed to avoid the intense social breakdown and extreme political turmoil that accompanied the crisis in other countries, especially Indonesia. However, despite Malaysia's relatively strong position at the outset of the crisis, its economy has suffered considerably. The recession brought on by the regional downturn has raised unemployment levels and, consequently, the number of people in poverty. The intensity of the downturn grew as the gross domestic product (GDP) began to shrink by 2.8 per cent in the first quarter of 1998. This was followed by a further contraction of 6.8 per cent in the second quarter. By the end of 1998, in spite of modest economic growth in the third and fourth quarters, the Malaysian economy had contracted by some 7.5 per cent.⁵ As a result of the recession, lay offs and retrenchment were up considerably from previous years. From January to May 1998, some 34,850 workers were laid off (87 per cent of whom were Malaysians; the rest were foreign labourers in Malaysia on legal work permits). This number exceeds the total number of lay-offs for 1996 and 1997 combined (26,636).⁶ Although the economy was projected to grow in 1999, the new unemployment generated by the recessions in 1997 and 1998 will likely not be absorbed before 2001.

Closely tied to rising unemployment is an increase in the absolute number of citizens who have fallen below the poverty line. In late 1998, the World Bank estimated that if the economy remained flat but did not contract in 1998, some 44,000 people would fall below the poverty line. It also estimated that if the economy contracted by five per cent, that number would rise to approximately 289,000. Unfortunately, worse has come to pass. In addition to rising unemployment levels, the crisis caused inflation to rise to approximately nine per cent by the end of 1998 (up from 2.7 per cent the previous year). The largest price increases were in food (7.8 per cent), healthcare (5.6 per cent), and rent and fuel (4.6 per cent).

Despite the signs of recovery, unemployment and inflation continue to have an especially debilitating effect on poorer households. Food prices have risen faster than other components of the inflation index; this is especially significant for poorer households where food accounts for the bulk of their expenditures – 45 percent compared with some 35 per cent for households closer to the mean. Cuts in government spending brought on by the crisis will also have a disproportionate effect on the poor (and the newly poor). Already, the government has cut its budget in virtually all areas of public sector spending by approximately 30 per cent. Even if the economy recovers through 2000, the strain on the poor will continue unabated.

⁵ 'Economic Indicators,' *Far Eastern Economic Review*, 28 October 1999, 80.

⁶ Economist Intelligence Unit (EIU), Malaysia: EIU Country Report (London: Economist 1998), 23.

The Anwar Trial and the Erosion of Civil Liberties?

Human security concerns in Malaysia go beyond the dismissal and imprisonment of Anwar Ibrahim, Malaysia's former deputy prime minister. Press censorship, internet control, the continued use of the repressive Internal Security Act, and restrictions on political activism in public (and on university campuses) could legitimately be seen as threats to human security. Since the early 1990s, wider segments of the otherwise quiescent Malaysian public have become more critical - and more vocal in their criticism - of the ruling United Malay National Organization (UMNO). This growing opposition, however, remained fragmented and its articulation was inconsistent.⁷

Although the divide between Anwar and President Mahathir predates the the region's financial turmoil, differences between the two were intensified by the crisis. Soon after the ringgit was forced to devalue, Mahathir grudgingly accepted the advice of his deputy and began to implement a series of reforms that closely resembled measures that the International Monetary Fund (IMF) was stipulating in those crisis-affected countries that had approached it for assistance. However, Mahathir was unwilling to bear the political consequences of these reforms and saw that they were reversed. Instead, he opted for a series of policy measures that not only put him at odds with the international financial community, but once again set him against Anwar and his growing support base.

Especially alarming, however, are the potential implications of these divisions for civil liberties in Malaysia more generally. During the fieldwork, representatives of several non-governmental organizations (NGOs) and academics associated with citizens' rights groups voiced concerns over what Anwar's dismissal and imprisonment meant for those engaged in 'critical' research and debate. As one NGO representative explained: 'In this crisis, one of the most important things anyone can do is to alert and inform citizens as to their rights. While Anwar was - despite how the international press has made him out to be - no saint, he did represent a more critical voice within the Barisan [Nasional]. Because of him and his relatively liberal outlook, there was room for critical discussion and it gave others like myself in the universities and activist communities some freedom to disagree and debate the government's policy directives. With the way Mahathir has moved to discredit Anwar with these charges of sexual misconduct ... many of us are quite concerned. The spaces for dissent and criticism that we have carefully carved for ourselves are in danger and may disappear.'⁸

⁷ At the time of writing, the country's most recent national election (held on 29 November 1999) could be seen as evidence of growing coherence among the diverse groups that oppose UMNO. Although Malaysians returned Mahathir as prime minister for the fifth time, and his party acquired the two-thirds parliamentary majority it needs to pass legislation virtually unopposed, the opposition won 45 seats, twice as many as in the 1995 election. The Alternative Front - the Islamic Party of Malaysia (PAS), the Chinese-dominated Democratic Action Party (DAP), and the Justice Party - fared especially well among ethnic Malays, the long-time Islamic backbone of Mahathir's support, and in the northern states of Terengganu, Kelantan, and Kedah (the 'Malay heartland'). See 'The unstoppable Dr. Mahathir,' *Economist*, 4 December 1999, 27-7.

⁸ Confidential interview, 12 November 1998. similar concerns about UMNO were voiced during subsequent interviews with artists and academics engaged in research. Some might argue that the reformasi movement is

NGO activists and analysts interviewed in Malaysia articulated three different strategies they could employ in response to the potential erosion of their political space. The first is to do nothing. Simply remaining quiet and curtailing their activism is seen as a legitimate response, especially among those who are concerned for their safety. The second is to take their criticism underground and/or channel it through an emerging set of alternative forums for critical debate (such as the various artistic/performance groups that were emerging at the time of writing). A third choice is to wait for foreign governments, agencies, and international groups to articulate their concerns and/or provide funding for the creation of (often temporary) spaces for public debate and discussion.⁹

The crisis was an exogenous shock to the (sometimes fragile) political, economic and social environment in which UMNO had guided and managed Malaysian society and the nation's economy. But, even before the onset of the shock, politics in Malaysia had begun to undergo subtle changes as growing segments of the population found themselves increasingly unhappy with UMNO's leadership. The crisis intensified the situation, leading to what seems to be an irreconcilable divide within UMNO that many fear will result in a wider erosion of civil liberties and, consequently, human security.

The Philippines

Macroeconomic Decline

In the Philippines, much as in Malaysia, the human security effects of the crisis are tied to the erosion of the national economy. One of the areas in which the crisis has had a notable impact is that of unemployment. During the first quarter of 1998, 54,515 workers were laid off,¹⁰ mainly in the agricultural sector and in industries focused on domestic markets.¹¹

evidence of new and growing space within Malaysian society for the expression of contrary views. Sources in Malaysia, however, warn that the movement has not yet gained sufficient momentum to solidify into a credible political force against the dominant UMNO. Reformasi draws on several different critical groups, many of whom are quite new to political opposition and others who bring to the movement divergent (if not conflicting) agendas. Aside from the potential for conflict and eventual defection, those who are concerned with the government's handling of the crisis may lack the resolve to stay the course once the economy improves and their economic concerns are met.

⁹ An example would be the Asia Pacific Peoples Assembly (APPA), which took place on 11 and 12 November 1999. APPA is similar to the Peoples' Summit that took place alongside the meeting of the Asia-Pacific Economic Co-operation group in Vancouver in 1997. The Canadian government, through the Department of Foreign Affairs and International Trade, provided \$60,000 to the organizers of APPA to assist with conference overhead expenses and information dissemination activities.

¹⁰ EIU, *Philippines: EIU Country Report* (London: Economist 1998), 20.

¹¹ Hassall & Associates International, *Study on the Effects of the East Asian Economic Crisis on Agricultural and Rural Development in Major Recipients of Australian Aid* (Canberra: AusAID, 1999), chaps 4.1- 4.4.

Table 1 Unemployment

Selected Variables	April 1996	April 1997	April 1998
Employment Rate	89.08	89.60	86.68
Unemployment Rate	10.92	10.40	13.32
Male Unemployment Rate	9.26	9.26	12.19
Female Unemployment Rate	12.77	12.33	15.18

Source: Labor Force Survey, National Statistics Office, Philippines, augmented by author's research.

Unfortunately, other sectors of the economy remain ill equipped to absorb this new unemployment. Statistics from the Bureau of Labor and Employment Statistics show how the concomitant decline of the industrial and service sectors has reduced their capacity to absorb unemployed agricultural labourers.

Table 2

Jobs Generated ('000)	1995	1996	1997	1998 (Q1)	1997 (Q1)
Industry	191	291	201	100	210
Manufacturing	78	79	36	21	
Services	593	721	659	631	675

Source: 1995 Yearbook of Labor Statistics and Current Labor Statistics (Bureau of Labour and Employment Statistics - Department of Labor and Employment) augmented by author's research.

Inflationary pressures have also taken their toll. Early on in the crisis, inflation was not immediately apparent. By September 1997, it still hovered around pre-crisis levels because upward pressures on prices were mitigated by the slow growth in food prices. In the first quarter of 1998, however, food prices began to increase, causing the overall inflation rate to reach approximately ten per cent. Of course, inflationary pressures had their greatest impact on the poor households and fixed income earners and the rise in unemployment will ensure that wages do not keep up with inflation. Historically, rising inflation and growing unemployment have intensified income inequality.¹²

¹² Joseph Y. Lim, 'The Social Impact and Responses to the Current East Asian Economic and Financial Crisis: The Philippine Case,' unpublished ms for the UNDP/Regional Bureau for Asia and the Pacific, July 1998.

Devolution, Fiscal Austerity, and the Capacity of Government Institutions

Much as in Malaysia, Philippine society and politics were also undergoing significant changes prior to the crisis. Since the adoption of the Local Government Code (LGC) in 1991, responsibility for the delivery of several social services has been devolved to provincial and/or local government units (LGUs). In areas such as health care, where the process of decentralization has progressed furthest and its effects have been most pronounced, LGUs are now required to administer several programmes that were once the sole responsibility of the central government.¹³

Unfortunately, this has meant that the quality of social services has deteriorated in poorer municipalities as impoverished LGUs find themselves without the management, technical and financial resources to provide quality social programming. As a noted health care expert states, 'While for some municipalities, the story on devolution is mixed, for many it's been quite negative. Aside from the pervasive resource constraints, decentralization resulted in a deterioration in the quality of co-ordination between different institutions/groups with different responsibilities. Under the centralized system, there was fairly close coordination between the district hospitals and the Rural Health Units [RHUs]. They would work together to serve people in their shared areas. Now, however, the district hospitals receive no support from the RHUs, leaving the district hospitals without the necessary resources to train personnel and acquire the bare necessities.'¹⁴

The crisis, unfortunately, has exacerbated the situation because of the fiscal austerity that accompanied the regional financial turmoil. With the onset of the crisis, all Philippine government departments were forced to reduce expenditures by 25 per cent.¹⁵ This has had a debilitating impact in a variety of social areas, including the provision of low-income housing, education, and health services for the poor. In health care, the 25 per cent cut has intensified the existing deterioration of health care delivery in poorer provinces/municipalities and will likely continue to do so. The crisis cost the 1998-9 health budget almost 2 billion pesos, and approximately the same amount was withheld from the 1999/2000 budget.¹⁶ Even if, as available data seems to indicate, health and social welfare budgets in the current fiscal year are protected from further reduction, the impact of the spending cuts mandated in 1998/1999 and 1999/2000 will continue to be felt for years to come. In an environment in which decentralization has

¹³ See Government of the Philippines, *Local Government Code of 1991* (Manila: Government of the Philippines 1991); World Bank, *Philippines Devolution and Health Services: Managing Opportunities and Risks* (Manila: World Bank 1994); Department of Health, *Responding to Questions on Devolution of Health Services*, Parts 1 to 3 (Manila: Department of Health, 1993).

¹⁴ Dr Warlito Vicente, Dean, Davao Medical School Foundation, interview, Davao City, 20 October 1999.

¹⁵ This statistic, and the data cited in the following paragraphs, came from discussions with various personnel at the National Statistics Office (NSO) several times in October and November 1998 and February and March 1999.

¹⁶ In late 1998, the government of Joseph Estrada announced that certain areas of social spending would be exempt from the mandated 25 per cent cut. However, the government's ability to live up to this promise has been compromised by increasing unemployment and lower than expected tax revenues.

contributed to mismanagement as well as a shortage of medicine and equipment, it is the quality of rural health care delivery that has suffered the most.¹⁷ The devaluation of the piso has raised the price of medicine and vaccines, many of which have a high import content, and reduced the purchasing power of the remaining budgets (after the 25 per cent cut) for purchasing and maintaining medical equipment so that some equipment is now out of reach for most hospitals, even in wealthier municipalities.¹⁸

As in Malaysia, the financial crisis intensified the effects of an internal transformation that had been under way in the Philippines since the early 1990s. While this section of the article has focused on health care, a broad set of social services has been (and will continue to be) decentralized to local governments and the discretion of local executives. The effects of poorly managed decentralization are especially acute in the Philippines. Of the five original members of the Association of South-East Asian Nations (ASEAN), the Philippines remains the poorest and lags behind its regional neighbours in both economic and human development. Thus, any deterioration of publicly funded social services has severe implications for much of the country's population.

Vietnam¹⁹

As the currency crisis continued through the remainder of 1998, Vietnam received little attention from either journalists or the academic community until the World Bank released its report, *Vietnam Rising to the Challenge: An Economic Report*, in late 1998. Obtaining reliable statistical data on the welfare and development issues in Vietnam is challenging, making an analysis of the situation difficult. However, it is possible to combine data trickling out of Vietnam with other (more anecdotal) evidence in order to understand the impact of the crisis on the country's economy and what some of the potential human security impacts have been.

Vietnam's government and society has been undergoing profound changes since the onset of *doi moi* (literally 'renovation') in 1986. The economic restructuring and reforms that accompanied *doi moi* have altered the political, economic, and social environment in which Vietnamese people (80 percent of whom are rural and tied to the agricultural sector) try to meet

¹⁷ For example, the government's Malaria Control Program will see a 27 per cent reduction in case findings and treatments. The Department of Health estimates that this could lead to 29,000 deaths. The government's Tuberculosis Control Program will be similarly affected with some 90,000 patients untreated. The Schistosomiasis Control Program will also see a reduction in case findings (almost 300,000 patients affected) and treatments (4,680 patients).

¹⁸ Interviews in Davao del Sur with Dr Edgar Nuñez, Municipal Health Officer, Municipality of Magsaysay, 17 November 1999; Attorney Joel Ray L. Lopez, Mayor, Municipality of Sta. Cruz, 18 November 1999, Sta. Cruz; Dr Jonathan C. Sivala, Municipal Health Officer, Municipality of Padada, 19 November 1999.

¹⁹ I am indebted to a several people in Vietnam for their assistance with this section of the article: Virginie Saint-Louis and Peter Hoffman, Canadian embassy, Hanoi; Robert Glofcheski and Vu Quoc Huy, UNDP, Hanoi; Mila Rosenthraou, PhD candidate, London School of Economics; and Nisha Agrawal, chief economist, World Bank offices, Hanoi.

their basic needs. As in both the Philippines and Malaysia, the human security implications of the crisis in Vietnam are subtle; understanding them hinges on being able to see how the crisis has affected the dynamics of change that are unique to Vietnam at this time.

Security and Insecurity: Objective Evidence

Because of the difficulties involved in obtaining reliable data in Vietnam, any attempt to learn more about social welfare issues must rely on the use of proxy variables and/or more anecdotal evidence alongside more objective data. By confirming sources and cross-validating reports, one can begin to assemble a credible picture of the contemporary situation.

At the time of writing, the Vietnamese economy had managed to escape the debilitating economic/income-related effects of the financial and fiscal crises that have plagued many of its neighbours. There were a variety of contributing factors, several of which were related to the economy's relative isolation from the global economy. Vietnam's relatively low dependence on foreign capital, the non-convertibility of the dong, and the existence of several sets of regulations protecting vast areas of the domestic economy from international competition have provided Vietnam with some temporary respite from the crisis.²⁰ These factors, combined with the fact that some 80 per cent of the country's population is rural and remains tied to agricultural production, meant that, for the time being, most peoples' livelihoods remained intact. If anything, some farmers saw their wealth increase as the terms of trade for certain Vietnamese exports (particularly rice) improved for because of new demand in Thailand and Indonesia, as well as successful export market diversification.²¹

Unfortunately, this new prosperity is likely to be short-lived. As rice production in Thailand and Indonesia recovers from el Niño and from rural instability in Indonesia, regional demand for rice is expected to return to normal. Even if (aided by bumper crops) Vietnam is able to maintain its position as the world's second largest rice exporter, the steady decline in international rice prices --- now at a 10-year low --- will erode earlier gains. Moreover, the impact of these changes on Vietnam's rural economy will be exacerbated by the declining terms of trade for other exports (including coffee) as well as the accompanying inflation in non-food prices.²²

²⁰ This is by no means an original observation. See, for example, UNDP, *East Asia: From Miracle to Crisis: Key Lessons for Viet Nam* (Hanoi: UNDP in Viet Nam, November 1998), 47-8.

²¹ *Ibid.*, 50-1; World Bank, *Vietnam Rising to the Challenge: An Economic Report* (Hanoi: World Bank, 1998), 4; Jonathan Birchall, Vietnam Correspondent, *Financial Times*, interview, Hanoi, 24 February 1999. *Ibid.*, 50-1; World Bank, *Vietnam Rising to the Challenge: An Economic Report* (Hanoi: World Bank, 1998), 4; Jonathan Birchall, Vietnam Correspondent, *Financial Times*, interview, Hanoi, 24 February 1999.

²² This phenomenon seemed to materialize as early as October 1999. During a research visit to Vietnam from 11 to 18 October 1999, emerging evidence indicated that regional rice production was returning to normal, and Vietnam's prosperity in this area had already begun to wane. See 'Vietnam sources: statistics,' *Vietnam Economic Times*, no 68 (October 1999), 36-7. For more recent data on the Vietnamese economy, see Margot Cohen, 'A Glimmer of Hope', *Far Eastern Economic Review*, 8 June 2000, 76.

Foreign investment has also suffered since the onset of the crisis. Not only are new commitments and joint ventures either downsizing or postponing their operations, but some investors have simply left. In the first eight months of 1998, only 51 projects were approved, for a total commitment of US\$1050 million. Of this amount, some \$450 million has been realized - a mere 56 per cent of the amount in the first quarter of 1997. The decline in foreign direct investment has already affected employment levels, costing the economy some 28,000 jobs at the time of writing.

As in the Philippines, the financial crisis has also necessitated fiscal restraint in Vietnam's public sector. The macroeconomic pressures of the financial crisis have further reduced public expenditure, already on a downward trend over the last few years because of *doi moi*. Rising unemployment (now at eight per cent in some parts of the country), the increasing number of failing state-owned enterprises (SOEs), and lower import-tax receipts have all conspired against the government and reduced its overall tax revenue from ten per cent of GDP in 1997 to approximately nine per cent in 1998. Discretionary spending by government departments has been reduced by some 40% and, according to some members of the donor community, it is inevitable that social programming will bear the brunt of the reduction.²³

Another interesting consequence of the fiscal challenge brought on by the crisis is its impact on the work of national and international development agencies based in Hanoi. Several of UNICEF's programmes are undertaken jointly with relevant ministries in the Vietnamese government. The 40 per cent cutback has eroded the government's capacity to work effectively with agencies like UNICEF and the United Nations Development Programme (UNDP) in addressing important social sector priorities, in particular poverty alleviation. This is a unique problem encountered by aid agencies operating in countries where the state has a strong role. There is little room for donor agencies to redirect their efforts towards the local level and engage directly with non-state actors to confront various development challenges.²⁴

One such challenge is in the area of health care. Before the beginning of *doi moi*, Vietnam had an impressive health care infrastructure that provided extensive coverage through a relatively dense network of central, provincial, and district hospitals, as well as commune health care centres. Even well into the early 1990s, Vietnam had 170 commune health centres per million which compared favourably with coverage elsewhere in Asia.²⁵ Through the late 1980s and early 1990s, however, Vietnam's health care system has encountered growing difficulties as fiscal austerity meant that the government was no longer able to support these centres and the attenuating public health programmes.

²³ At the time of writing, this figure is unconfirmed. It was first relayed to the author during his interview with Peter Hoffman on 22 February 1999 and subsequently confirmed by Rodney Hatfield at UNICEF (Hanoi), who obtained it through discussions with Vietnamese government officials from a variety of ministries, including the Ministry of Labour Invalids and Social Affairs (MOLISA).

²⁴ Rodney Hatfield, Senior Programme Officer, UNICEF - Vietnam, interview, Hanoi, 24 February 1999.

²⁵ For example, the numbers are 63 per million in China, 32 in Indonesia, and 141 in Thailand.

With virtually no resources available from the now defunct commune co-operatives, local health provision has suffered dramatically. The drop in the use of contraceptives among women with little education has resulted in significantly higher birth rates. Approximately 40 per cent of all children remain malnourished; predictably, malnutrition is significantly higher in rural areas than in urban centres. Some 65% of the sick now opt for 'self-treatment', which includes obtaining and using medication without guidance from a trained doctor. As expected, this phenomenon is especially acute among the poorest of the poor; around 70% of the poorest quintile choose self-medication as compared to 55% among the wealthiest. In the context of the crisis, where all government ministries have been required to reduce discretionary spending by 40%, the situation is likely to worsen.

Human Security and Insecurity: Subjective Views

As in both the Philippines and Malaysia, the implications of the crisis have gone beyond the realm of income, poverty and government spending. Because some 80 per cent of the population lives in rural areas and is relatively isolated from mass media, the impact of the regional crisis is virtually unknown to the bulk of the population. Combined with government controls on the dissemination of information, many Vietnamese people have very little conception of how the crisis could affect their livelihoods over the next few years. In order to gauge this, one must draw on examples of individual or group behaviour that reflect (either implicitly or explicitly) some assessment of the future.

Borrowing behaviour is one such indicator. Arguably, decisions to borrow are based on some expectation as to whether or not the future will continue to deliver sufficient prosperity to allow the borrower to pay back the loan. Normally, it is difficult to gain access to reliable information in the banking sector. However, the Vietnam-Canada Rural Finance Project, a relatively new micro-credit lending scheme established by Développement international Desjardins (DID) in conjunction with CIDA, yields some reliable and interesting data.

DID's programme has grown from approximately 269,000 loans at the end of its first year in 1995 to 734,796 loans by December 1998. Since the onset of the Asian crisis in July 1997, the number of loans continued to increase steadily from 385,480. The average size of the loans has also increased from \$395 to \$464 in the same period.²⁶ While DID does not impose any limitations on the use of its loans, virtually all are used for agricultural production. The Vietnam Bank for Agriculture and Rural Development (VIBARD) and DID are still unable to satisfy the backlog of demand for credit in Vietnam. The ongoing success of the programme, even within the context of the crisis, suggests that farmers still see a potential market for their goods. They do not see their economic well being as threatened by the crisis; at a subjective level, they do not perceive threats to their human security.

²⁶ Statistics taken from spreadsheets provided by André Hotte, Project Manager and Field Coordinator, Vietnam-Canada Rural Finance Project, DID, interview, 25 February 1999.

The danger, of course, is that the Vietnamese people may simply be unaware of how their welfare could be affected by the crisis in the near future, especially if the government in Hanoi continues to deny that the crisis has had a somewhat detrimental impact on the Vietnamese economy.

Much like the Philippines, Vietnam's system of governance and public administration has been experiencing an important transformation with human security effects all its own. As with any country in transition, the transformation from central planning to market orientation will hurt those that are least prepared and/or most vulnerable. The Asian crisis, however, adds another dimension, the implications of which are even more acute. Arguably, the threats posed by *doi moi* are more manageable if the state retains some control over the nature of the economic, political, and social transformation. In such an environment, vulnerable sectors of the population have a better chance of adapting and surviving with assistance from the state. Unfortunately, the pace and nature of change wrought by the crisis is outside of the government's control, leaving vulnerable groups in a more tenuous position.

While Vietnam's relative isolation from the global economy seems to have served it well, over the long run it may prove to be the source of profound human security challenges. From a human security perspective, the inability/failure of people to interpret their environment, perceive their own vulnerability and plan/act accordingly is alarming. While the exogenous shock (the crisis) has intensified some of the negative effects of economic liberalization (for example, in health care), other elements of the social transformation (information dissemination, public exchange/debate) have not proceeded fast enough. Thus the ability of Vietnamese citizens to perceive systemic threats to their livelihood is compromised leaving their human security in a potentially precarious state.

Policy Critique and Recommendations

The countries examined in this article serve as valuable case studies from which Canada's foreign policy community can draw useful lessons. As noted near the outset, some of the findings support and reinforce the Canadian government's conceptualization of human security (as articulated in *Canada in the World*), while the remaining evidence poses both informational and conceptual challenges to how the implementers of foreign policy understand, articulate, and operationalize the notion of human security. Some of the quantitative and qualitative data uncovered during the field work highlights new areas that are rarely explored but should be addressed if Canada is to achieve a comprehensive, fully-integrated strategy that assists the vulnerable.²⁷

General Critique/Assessment

Overall, *Canada in the World* does not account for the potential havoc that exogenous shocks can wreak on human security concerns and how Canada's aid and foreign policy could be shaped to help other countries address these sorts of vulnerabilities. Moreover, as the quantitative

²⁷ Ostensibly, a more cohesive policy approach is the objective. See *Canada in the World*, 25 and 45.

and qualitative data presented in this article confirm, financial and economic turmoil has effects that often go beyond mere income/standard of living concerns because they often exacerbate existing political tensions and/or the detrimental effects of ongoing governmental transformations in the developing world.

This conceptual gap in *Canada in the World* is surprising. Asia's economic turmoil is not the world's first experience with systemic financial instability and its debilitating economic and social effects; the 1994 Mexican peso crisis and the Latin American debt crisis of the 1980s should have impressed upon those who drafted the government statement the importance of accounting for financial and economic instability.

Malaysia

Canadian policy towards Malaysia has centred on helping the country to enhance its capacity to achieve its economic growth and development objectives. While the current economic climate in Malaysia (and the region more generally) would suggest that these efforts are of merit, more attention should be given to those components of Canada's strategy that are intended to help people meet their basic needs. It is likely that the remainder of 2000 will see continuing desperation among the poor and the newly poor, although their plight is not likely to capture the attention of the international media.

Malaysia provides an example of how human rights and civil liberties have been affected by the political change wrought by the crisis - an added dimension of human security that has not been explored in the available literature on the crisis. Although *Canada in the World* acknowledges the link between civil society, human rights, and human security, the document is less clear on how it should be operationalized.

Canada in the World does note the importance of providing support to civil society, but it overlooks the possibility that the hard-won gains of civil society and civil libertarians could be eroded as a direct or indirect result of economic instability. Again, as noted above, economic turmoil is nothing new; in fact, as more governments deregulate their economies and open themselves to the discipline of globalization, they are implicitly (if not explicitly) accepting the dynamic change and volatility that is inherent in an increasingly globalized system. The sorts of civil liberty concerns raised in the case of Malaysia are likely to emerge elsewhere. Canadian policy-makers would do well to explore the potential erosion of civil liberties and incorporate this phenomenon into their existing framework.

The Philippines

Canada's development assistance in the Philippines is channeled through a series of bilateral, as well as multilateral, programmes. At the bilateral level, the Country Development Policy Framework (CDPF) is the overarching framework for Canada's bilateral assistance.²⁸ The

²⁸ This section draws on official documents describing the CDPF and CIDA's objectives more generally; see <http://www.dfait-macchi.gc.ca/manila/ENGLISH/devcoop/menu-e.htm>.

CDPF is meant to highlight and focus resources on two of CIDA's six key priorities: good governance and private sector development.²⁹ The other four priorities are to be integrated into CIDA's programming as crosscutting themes. To fulfil its mandate, the CDPF focuses on the following objectives: promoting responsible governance, building Philippine private sector capabilities and strengthening the capacity of democratic institutions, NGOs, and peoples' organizations. Within the context of the CDPF, the bulk of Canadian assistance to the Philippines is focused on those two geographic areas that are widely perceived as the country's poorest, the Western Visayas and Mindanao.

Ongoing efforts in the Philippines to decentralize and devolve the administration of social programming is a dynamic that Canadian policy must consider if it is to provide effective and useful assistance over the short- and long-term. As the Philippine case shows, devolution and decentralization, if not managed properly, can threaten the livelihoods of those who rely on government social services. The detrimental effects of devolution experienced in some low-income communities have been exacerbated by the crisis, thus aggravating existing human security challenges and concerns.³⁰

The Philippine case is an instructive one for Canadian policy-makers on a number of fronts. The empirical data provided in this paper point to possible changes in Canada's strategy in the Philippines. In the context of the crisis and the trend towards decentralization, the Canadian government should consider refocusing its strategy. While the promotion of good governance and nurturing the private sector are laudable goals, more effort should be put towards assisting local governments in confronting the more basic challenges they face as a result of decentralization - challenges that have been exacerbated by the fiscal austerity of the financial crisis.³¹

At a more general level, the Philippine case also points to a conceptual gap in how the Canadian government understands the potential threats to human security. Those portions of *Canada in the World* that explicitly address the notion of human security do not adequately account for widespread trends and dynamics taking place within developing countries around the

²⁹ CIDA's six priorities are: basic human needs; women in development; infrastructure services; good governance, human rights and democracy; private sector development; and the environment. See CIDA, *CIDA and International Cooperation: Canada's Role in International Development* (Ottawa: Minister of Public Works and Government Services Canada). These priorities were reiterated in *Canada in the World*.

³⁰ For more on how devolution has contributed to an erosion of health care services in low-income municipalities, see Department of Health, Regional Health Office No. XI, *Annual Report 1991* (Manila: Department of Health, 1991); Department of Health, Regional Field Office No. XI, *1997 Annual Report 1997* (Manila: Department of Health, 1997); Juan A. Perez III, 'Seven years of health devolution: an assessment,' *Health Beat* (Supplement), 9 October 1998, 8-12.

³¹ Canada may have much to share with the Philippines. Canada's efforts at navigating the potentially treacherous waters of decentralization and developing a federal structure with shared powers and responsibilities may be a useful model for Philippine officials to examine.

world.³² The movement towards devolution and decentralization, for example, is not unique to the Philippines; decentralization has been occurring (and will continue to take place) in several developing countries.³³ This points to the importance of capacity-building and institutional strengthening, especially at the local level. While *Canada in the World* does address these specific concepts, it does not account for the more general phenomena that drive and create the need for capacity-building/institutional strengthening initiatives.

Vietnam

Canadian assistance to Vietnam is centred on four key objectives: economic and administrative reform, poverty alleviation, private sector development, and the promotion of good governance and civil society. Canada's aid programme has achieved some important objectives, but has been unable to meet some other key goals, in particular poverty alleviation and promoting good governance and civil society.

Nonetheless, Vietnam presents Canadian policy with a unique opportunity to address both the short- and long-term challenges emerging there. It also presents policy-makers with a richer understanding of what constitutes human insecurity and the sorts of policies that are necessary (other than those presently articulated in *Canada in the World*).

Over the short term, the emerging need-capability gap in Vietnam's national health care system (in particular the need for preventative care, rather than just curative services) suggests new areas and opportunities for Canadian policy. At a general level, Canada would want to ensure that, in the short to medium term, Vietnam is able to confront the shortcomings in its health care system. Over the longer term, Canada's development strategy should seek to ensure that the institutional capacity of the country's health care system is strengthened, especially at the local level.

The shortcomings of the national health care system reflect a more general challenge in Vietnam at this time. Because of the changes demanded by *doi moi*, and the additional fiscal challenges posed by the crisis, the provision of social services at the rural/commune level has suffered considerably, leaving rural dwellers less well-off than their urban counterparts. If one accepts that the deleterious affects of the crisis will be visited upon Vietnam at a later date, then the situation is likely to get worse. The scope of Canada's aid activities could go beyond health care to include education, social security and employment creation.

³² The closest that *Canada in the World* comes to addressing these dynamics is on page 45 under the heading 'Guidelines for Effective Programming.' While there is no specific reference to devolution, the Statement does note that programming should be based on, among other things, 'Knowledge of Local Context.' This may be adequate for a general policy statement, but a more specific listing of key themes and domestic dynamics that could alter the human security equation in developing countries would be useful.

³³ The existing literature on decentralization and its impact on health care is extensive. See, for example, Anne Mills et al, eds, *Health System Decentralization: Concepts, Issues and Country Experience* (Geneva: World Health Organization 1990).

Conclusion: Much Work to be Done

The purpose of this article was to assess/examine the human security implications of the financial crisis in selected Southeast Asian countries and to suggest how they might affect Canadian foreign policy. At the same time, it was hoped that some clarity might be brought to the notion of human security. Unfortunately, the empirical evidence presented in this article has not clarified human security; if anything, it has uncovered new dimensions which further complicate an already contentious idea that some believe is too vague to be useful. While this study has possibly enriched the idea of human security, it has not answered the (arguably most important) question: What is human security? Nor has it clarified the priority that should be given to resources in order to achieve it.

By examining the interplay of the crisis with internal processes of social and governmental transformation, a useful prism was created through which to assess and critique how the Canadian foreign policy establishment conceptualizes human security. The intention was to go beyond the understanding of human security articulated in *Canada in the World* and other Canadian policy documents³⁴ and make criticisms and recommendations that might otherwise have been missed.

The sorts of dynamics and concerns noted in this paper are likely to be sustained over the medium and long term. These domestic issues and transformations will continue to play themselves out - Prime Minister Mahathir has been re-elected; the Philippines continues to grapple with the challenges of the 1991 Local Government Code; and Vietnam's renovations are far from over. Furthermore, these sorts of transformations - and the challenges they present - will affect other countries that are currently at different stages in their political and economic development. Countries like Indonesia, for example, will undergo several different sorts of domestic changes and reforms³⁵ that will have human security implications all their own. Should another regional crisis erupt, one could expect to see several of the dynamics described in this article repeat themselves. In larger and poorer countries such as China and India, the horror stories could be endless. At a more systemic level, financial crises akin to the one that gripped the region are likely to happen again in Asia and elsewhere. Economic and financial crises are unavoidable. As more governments choose to liberalize their economies in order to cope with the pressures of globalization, they are also choosing to accept the volatility that tends to accompany increased economic liberalization.

³⁴ Aside from *Canada in the World* and *CIDA and International Cooperation: Canada's Role in International Development*, see: Canadian International Development Agency, *Report to Parliament: Canada's Participation in the Regional Development Banks 1996 and 1997* (Ottawa: Minister of Public Works and Government Services Canada 1998).

³⁵ Iyanatul Islam, Special Advisor, UN Special Facility for Indonesia's Recovery (UNSFIR), interview, 22 September 1999, Jakarta. In particular, Dr Islam pointed to the Indonesian government's plans to decentralize several sets of powers and responsibilities to provincial and local governments once the election was completed.

The approach used in this article highlights some of the long-term transformations that are taking place in the developing world. These changes, driven by external as well as internal phenomena, can have severe effects on human development and security concerns. These are the sorts of challenges that Canadian policy-makers must address if they wish to devise a robust foreign policy that truly addresses human security, at least as it is currently defined.